

Message Text

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PAGE 01 OTTAWA 00320 272251Z

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SUBJ ECONOMIC FORECASTING

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1. LATEST FIGURES ISSUED BY STATISTICS CANADA ON JAN 22 SHOW DROP OF .4 PERCENT IN INDEX OF INDUSTRIAL PRODUCTION IN NOVEMBER (FROM 218.6 IN OCTOBER TO 217.7 WITH 1961 USED AS BASE YEAR OF 100).

2. INDEX OF INDUSTRIAL PRODUCTION FOR 1973 WAS 213.1 AND FOR FOUR QUARTERS WAS 210.8, 213.5, 212.1 AND 216.9 RESPECTIVELY. INDEX REACHED HIGH OF 226.1 IN MARCH 1974 AND SUBSEQUENTLY DECLINED. FOR MONTHS OF AUGUST THROUGH NOVEMBER 1974 INDEX WAS 220.2, 218.9, 218.6 AND 217.7.

3. EMBASSY WOULD EXPECT FURTHER DECLINES IN INDEX THROUGH FIRST SIX MONTHS OF 1975 BUT IS UNABLE TO PREDUCT PRECISELY BY HOW MUCH. TWO IMPORTANT UNKNOWNNS (POSSIBLE INCREASED LABOR DISPUTES AND DECREASED EXPORTS) CLOUD CRYSTAL BALL.

4. STRIKES AND LOCKOUTS FOR FIRST TEN MONTHS OF 1974 RESULTED IN 8,565,080 MAN-DAYS LOST (VICE 4,846,390 DURING SAME PERIOD 1973). WITH INFLATION CURRENTLY AT ABOUT 12 PERCENT, THERE IS NO REASON TO
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PAGE 02 OTTAWA 00320 272251Z

SURMISE THAT TRADE UNIONS WILL MODERATE THEIR DEMANDS,

AND 1975 COULD BE REPEAT OF 1974 IN TERMS OF LABOR DISPUTES. (ARTICLE IN TORONTO GLOBE AND MAIL OF JAN. 7 CLAIMED 70 PERCENT OF UNIONIZED WORKERS COVERED BY CONTRACTS WHICH WILL EXPIRE IN 1975.)

5. WITH CANADA'S MAJOR TRADING PARTNERS (E.G., U.S., JAPAN AND U.K.) EXPERIENCING ECONOMIC DIFFICULTIES, CANADA'S EXPORT TRADE IS EXPECTED TO CONTINUE DECLINE ALREADY IN EVIDENCE. SEASONALLY ADJUSTED, CANADIAN EXPORTS DECLINED 4 PERCENT IN DECEMBER TO C\$2,659 MILLION (FROM C\$2,769.2 MILLION IN NOV.). THIS WAS SECOND MONTH OF DECREASE AND RESULTED IN MERCHANDISE TRADE DEFICIT IN FOURTH QUARTER OF C\$363 MILLION (SEASONALLY ADJUSTED) COMPARED WITH SURPLUS OF C\$51 MILLION IN THIRD QUARTER. CANADA'S EXPORTS FOR FIRST SIX MONTHS OF 1975 COULD DECLINE EVEN FURTHER IF PRICES FOR COMMODITIES (COPPER, ZINC, LEAD, ECT.) CONTINUE TO DECREASE, GOC CUTS BACK ON OIL EXPORTS AND IF U.S. IMPOSES ENERGY IMPORT RESTRAINTS.

6. C.D. HOWE RESEARCH INSITUTE OF MONTREAL IN DECEMBER MADE "REASONABLY CERTAIN" PREDICTION OF INCREASE IN UNEMPLOYMENT IN CANADA IN 1975, ESPECIALLY IN GOODS-PRODUCING INDUSTRIES, ON THE EXPECTATION THAT EXPORTS WOULD DECREASE. NO FIGURES WERE GIVEN FOR INCREASE IN UNEMPLOYMENT OR DECREASE IN EXPORTS, BUT INSTITUTE PROBABLY BASED PREDICTION ON DEPRESSED HOUSING MARKET IN U.S. WHICH HAS HAD SEVERE ADVERSE EFFECTS ON CANADIAN LUMBER PRODUCTION, ON AUTOMOBILE PRODUCTION CUTBACKS IN BOTH COUNTRIES, AND ON LOWER DEMAND FOR CONSUMER GOODS IN MOST INDUSTRIAL COUNTRIES FOR EARLY 1975.

7. OTHER FACTORS HAVING BEARING ON FUTURE SIX-MONTH INDUSTRIAL PRODUCTION INDEX COULD BE: A) DECREASE IN MINERAL EXPLORATION/DEVELOPMENT DUE TO UNCERTAINTIES ARISING FROM FEDERAL/PROVINCIAL SQUABBLE OVER RESOURCE TAXATION, B) DECREASE IN CONSUMER SPENDING FOR DURABLES (SALES OF MAJOR APPLIANCES IN CANADA DURING NOVEMBER 1974 WERE WELL BELOW THOSE OF PREVIOUS YEAR; E.G., UNCLASSIFIED

UNCLASSIFIED

PAGE 03 OTTAWA 00320 272251Z

REFIGERATORS DOWN 18.6 PERCENT, STOVES AND RANGES DOWN 22.2 PERCENT, AUTOMATIC WASHING MACHINES DOWN 34.5 PERCENT AND TELEVISION SETS DOWN 29 PERCENT), AND C) POSSIBLE SLOWDOWN IN BUSINESS INVESTMENT.

8. ESTIMATES OF REAL GNP GROWTH IN 1975 RANGE FROM 4 PERCENT (FINMIN TURNER IN NOV.) TO 1.2 PERCENT (CONFERENCE BOARD IN SEPT.). LATEST ESTIMATES BY SOME

BANK AND FINANCE INSTITUTIONS ARE FOR 2 TO 3 PERCENT
REAL GROWTH FOR ALL OF 1975 WITH ALMOST NO GROWTH FOR
FIRST SIX MONTHS.

9. EMBASSY WOULD EXPECT, THEREFORE, THAT INDEX OF
INDUSTRIAL PRODUCTION MAY BE BETWEEN 214 AND 217 FOR
FIRST SIX MONTHS OF 1975 AND MAY GO LOWER IF INDUSTRIAL
DISPUTES INTENSIFY, EXPORT TRADE DECLINES FURTHER AND
MINERAL EXPLORATION/DEVELOPMENT DOES NOT IMPROVE.
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